

# OPEN MEETING ITEM



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**COMMISSIONERS**  
JEFF HATCH-MILLER - Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

## ORIGINAL



### ARIZONA CORPORATION COMMISSION

DATE: November 18, 2005  
DOCKET NO: SW-04305A-05-0086  
TO ALL PARTIES: SW-04305A-05-0087

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda. The recommendation has been filed in the form of an Opinion and Order on:

CORONADO UTILITIES, INC.

(CC&N/FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

NOVEMBER 28, 2005

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 6 AND 7, 2005

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For more information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 JEFF HATCH-MILLER, Chairman  
4 WILLIAM A. MUNDELL  
5 MARC SPITZER  
6 MIKE GLEASON  
7 KRISTIN K. MAYES

8 IN THE MATTER OF THE APPLICATION OF  
9 CORONADO UTILITIES, INC. FOR A  
10 CERTIFICATE OF CONVENIENCE AND  
11 NECESSITY TO PROVIDE WASTEWATER  
12 SERVICE IN PINAL COUNTY, ARIZONA.

DOCKET NO. SW-04305A-05-0086

13 IN THE MATTER OF THE APPLICATION OF  
14 CORONADO UTILITIES, INC. FOR AUTHORITY  
15 TO ISSUE SHORT AND LONG-TERM DEBT IN  
16 CONNECTION WITH THE ACQUISITION OF  
17 THE WASTEWATER UTILITY PLANT OF BHP  
18 COPPER, INC. AND CONSTRUCTING  
19 IMPROVEMENTS THERETO.

DOCKET NO. SW-04305A-05-0087

DECISION NO. \_\_\_\_\_

**OPINION AND ORDER**

14 DATE OF HEARING:

June 29, 2005 & September 19, 2005

15 PLACE OF HEARING:

Tucson, Arizona

16 ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

17 APPEARANCES:

Mr. Jay Shapiro, FENNEMORE CRAIG,  
on behalf of Coronado Utilities, Inc.; and

Mr. David Ronald and Mr. Jason  
Gellman, Staff Attorneys, Legal  
Division, on behalf of the Utilities  
Division of the Arizona Corporation  
Commission.

21 **BY THE COMMISSION:**

22 On February 10, 2005, Coronado Utilities, Inc. ("Coronado" or "Company") filed with the  
23 Arizona Corporation Commission ("Commission") an Application for an a new Certificate of  
24 Convenience and Necessity ("CC&N" or "Certificate") to provide wastewater utility service in the  
25 unincorporated community of San Manuel, in Pinal County. Currently, BHP Copper ("BHP") is  
26 providing sewer service to San Manuel incidental to the operation of its mine in the area. BHP is in  
27 the process of shutting down its mining operations in San Manuel. Coronado plans to purchase the  
28

1 existing wastewater treatment facility from BHP, and operate it until it can install a new wastewater  
2 treatment facility. To date, the Commission has not regulated BHP as a public service corporation,  
3 consequently, Coronado's application is for a new CC&N.

4 On the same date, February 10, 2005, Coronado filed an Application for authority to issue a  
5 combination of short and long-term debt instruments totaling not more than \$3,300,000, the proceeds  
6 of which are intended to finance the acquisition of the wastewater infrastructure.

7 Procedural Background

8 On February 11, 2005, Coronado filed a Motion to Consolidate the two applications.

9 On February, 23, 2005, Commission Utility Division Staff ("Staff") filed a Response to the  
10 Motion, indicating Staff had no objection to consolidating the two applications.

11 On March 15, 2005, Staff docketed a letter indicating that the CC&N Application met the  
12 sufficiency requirements of the Arizona Administrative Code.

13 By Procedural Orders dated March 16, 2005 and March 23, 2005, the matters were  
14 consolidated, procedural guidelines established and a hearing was set for June 29, 2005. The  
15 deadlines for filing the Staff and Report and objections or comments thereon, were extended pursuant  
16 to Procedural Order dated May 3, 2005.

17 On May 12, 2005, Coronado mailed a copy of the required notice of the hearing to all  
18 customers in San Manuel. The Company caused the notice to be published in the *San Manuel Miner*  
19 on April 27, 2005.

20 On May 27, 2005, Staff filed a Staff Report, recommending approval of the application  
21 subject to conditions.

22 On June 13, 2005, Coronado filed a Response to the Staff Report, primarily objecting to  
23 Staff's recommended capital structure.

24 On June 21, 2005, Staff filed an Addendum to the Staff Report, revising its recommended  
25 rates and charges.

26 The hearing convened as scheduled on June 29, 2005, before a duly authorized Administrative  
27 Law Judge. Only two customers gave public comment, but were very concerned about the effect of  
28 the proposed new plant on the residents of San Manuel. Mr. Jason Williamson, one of Coronado's

1 owners, testified for the Company, and Ms. Linda Jaress, Mr. Dennis Rogers and Ms. Crystal Brown  
2 testified for Staff. At the end of the hearing, Staff agreed to file a revised rate schedule.

3 On July 6, 2005, Staff filed a Request to Re-open the hearing in order to address new  
4 information that had come to Staff's attention after the June 29, 2005 hearing, concerning a criminal  
5 sentencing proceeding involving Santec, the manufacturer of the wastewater treatment plant that  
6 Coronado expected to install. Staff believed the outcome of the Santec sentencing could affect  
7 Staff's recommendations. In addition, Staff felt that a re-opened hearing would allow it to present its  
8 revised rate design. By Procedural Order dated July 7, 2005, the hearing was re-opened and set for  
9 July 22, 2005. Staff was ordered to file a legal analysis of whether BHP, the entity that is currently  
10 providing wastewater service in the affected area, is, or could be, a public service corporation. The  
11 July 7, 2005, Procedural Order suspended the time clock rule.

12 On July 11, 2005, Staff filed a Request to Reset the July 22, 2005, hearing date because the  
13 sentencing in the Santec case had been continued until August 11, 2005. Staff continued to believe  
14 that the results of that hearing could affect its recommendations in this matter, and requested that the  
15 re-opened hearing be re-set to no earlier than two weeks following the sentencing hearing. Staff also  
16 requested that Coronado be required to re-notice the re-opened hearing and that the Company provide  
17 a witness from BHP who could provide information about customer complaints and background  
18 information that would be helpful in determining whether BHP is a public service corporation.

19 By Procedural Order dated July 12, 2005, a Procedural Conference convened on July 22,  
20 2005. During the Procedural Conference, Staff and Coronado agreed that publication would be an  
21 effective and cost-minimizing means of notifying the San Manuel customers of the re-opened  
22 hearing. Coronado objected to Staff's suggestion that it be required to arrange for a witness from  
23 BHP, but that it understood that BHP had volunteered to make a witness available at the hearing.  
24 Coronado also objected to Staff's suggestion that it be required to file a legal analysis on the status on  
25 BHP as a public service corporation, as Coronado does not think the question relevant to its  
26 application.

27 By Procedural Order dated August 2, 2005, the Administrative Law Judge ordered Coronado  
28 to have notice of the re-opened proceeding published in the local newspaper and to post notice of the

1 re-opened hearing in at least three public locations within its proposed service area. In addition, the  
2 Administrative Law Judge provided a copy of the Procedural Order to the local newspaper. The  
3 August 2, 2005, Procedural Order required Coronado to provide a legal analysis of the status of BHP  
4 as a public serve corporation and agreed that arranging for the witness from BHP should be Staff's  
5 responsibility.

6 Because of the great interest in the local community in this matter, as a courtesy, the  
7 Administrative Law Judge issued a Procedural Order dated August 18, 2005, that sent copies of  
8 pleadings to the San Manuel Library and ordered the parties to provide copies of any future pleadings  
9 to the library as well.

10 On August 31, 2005, Staff filed its Memorandum concerning BHP's status as a public service  
11 corporation. In Staff's opinion BHP satisfies a great number of the criteria used to determine whether  
12 a business entity is a public service corporation.

13 On the same date, Coronado filed its legal analysis of BHP's status as a public service  
14 corporation, and including an affidavit of Gerald Brunskill, BHP's Manager of Closure Operations.  
15 In Coronado's opinion, BHP is not a public service corporation because it has never engaged in the  
16 sewage system business "for profit."

17 Also on August 31, 2005, Staff filed an Amended Staff Report which continues to  
18 recommend approval of the CC&N, but recommends phased-in rates. Staff's revised  
19 recommendations include a higher debt-to-equity ratio than Staff had originally advocated, but also  
20 include a recommend that that Coronado retain 75 percent of its earnings until the capital structure  
21 contains at least 40 percent equity.

22 On September 13, 2005, Coronado filed Comments on the Amended Staff Report, objecting  
23 to the recommendation that the Company retain 75 percent of its earnings until equity reaches 40  
24 percent. Coronado did not object to Staff's recommended conditions concerning training and safety.

25 The re-opened hearing convened as scheduled on September 19, 2005.

26 At the commencement of the re-opened hearing 15 residents of San Manuel gave public  
27 comment. In addition, between the June 29, 2005 hearing and the re-opened hearing, the  
28 Commission received numerous written comments from residents opposed to the application. The

1 residents of San Manuel are extremely concerned about the increased costs to them resulting from the  
2 construction of a new wastewater treatment plant. They believe that BHP has the obligation to  
3 continue to provide wastewater service to them at a much lower rate than is being proposed in the  
4 current application.

#### 5 The Parties

6 Coronado is an Arizona corporation formed August 18, 2004, for the purpose of owning and  
7 operating a wastewater utility serving the community of San Manuel, in Pinal County.

8 Currently, BHP provides wastewater services to the San Manuel community. Either BHP, or  
9 its predecessor in interest, has provided such service to the community in connection with its  
10 operation of the San Manuel Mine. Magma Copper Co., a predecessor to BHP, began developing the  
11 San Manuel Mine in 1948.<sup>1</sup> Ex S-4, Brunskill Affidavit. In 1954, as part of its expansion of its  
12 mining operations, BHP constructed the Town adjacent to its ore processing plant. The Town was  
13 constructed to provide housing for mine workers and service providers that directly supported mining  
14 operations. According to BHP, its ore processing plant consisted of a copper concentrator, copper  
15 smelter, three sulfuric acid plants, and electrolytic copper refinery and a continuous cast copper rod  
16 plant, which were supported by a powerhouse, an oxygen plant, sulfuric acid storage and loading  
17 facility, offices, maintenance shops, warehouses, a railroad and a Wastewater Treatment Plant. BHP  
18 states the Wastewater Treatment Plant was also used to serve the Town. The Town residences and  
19 associated buildings were originally owned and managed by the San Manuel Townsite Company, a  
20 subsidiary of BHP, and leased to company employees or those service employees who directly  
21 supported the mining operations.

22 BHP states that it did not originally charge residents separately for sewage disposal, but in the  
23 1970's and early 1980's, BHP charged a monthly fee of \$11- \$15 for waste disposal which included  
24 garbage and bulk trash pick-up as well as sewer service. BHP claims the Townsite Company lost  
25 money and was supported by BHP. In 1962, BHP dissolved the Township Company and took over  
26 operations directly. Beginning in the 1960's, BHP began selling housing, on a limited basis, to its  
27

28 <sup>1</sup> Hereinafter BHP and any of its predecessors will be referred to as BHP.

1 employees and service providers who directly supported mining operations. The bulk of the  
2 company-owned housing was sold off in the late 1980's and early 1990's. In 1988, a private disposal  
3 service took over garbage and bulk trash disposal service. BHP reduced the waste disposal charge to  
4 \$48 per year. The \$48 dollar fee for sewer service remains in effect to date.

5 BHP suspended underground mining at San Manuel in June 1999, and announced in January  
6 2002, that it would be closing the mine. On October 23, 2003, BHP announced that it would also  
7 permanently close the processing plant. BHP plans to complete closure of the mine and plant by the  
8 end of 2007.

9 On November 1, 2004, BHP and Coronado entered into a purchase agreement for the  
10 wastewater collection and treatment facilities. At the same time, Pivotal Utility Management, L.L.C.  
11 ("Pivotal Management"), an affiliate of Coronado, entered into an Operation and Maintenance  
12 Agreement with BHP to operate and manage the current wastewater treatment plant pending  
13 construction of a new treatment plant that will eventually serve existing and future customers. The  
14 purchase price under the Purchase Agreement is \$325,000, but BHP will provide a credit of \$249,999  
15 to Coronado for its design, permitting and construction of a reclaimed water pipeline to transfer  
16 effluent to the golf course owned by BHP. The Purchase Agreement requires Coronado to seek a  
17 CC&N from the Commission, and to obtain an Aquifer Protection Permit ("APP") from the Arizona  
18 Department of Environmental Quality ("ADEQ") for the new wastewater treatment plant and  
19 associated upgrades.

20 Pivotal Management owns three and operates five utilities in Arizona. Pivotal Management  
21 currently operates Pine Meadows Utilities, LLC ("Pine Meadows"), Sweetwater Creek Utilities  
22 ("Sweetwater"), Bensch Ranch Utilities LLC ("Bensch Ranch"), Cross Creek Ranch Water Company  
23 ("Cross Creek") and Verde Santa Fe Wastewater Company ("Verde Santa Fe"). Pivotal Management  
24 owns Pine Meadows, Bensch Ranch, and Verde Santa Fe. Pine Meadows received a CC&N in  
25 Decision No. 64599 (March 4, 2002); Sweetwater obtained its initial CC&N in Decision No. 59916  
26 (December 10, 1996); Bensch Ranch obtained its CC&N in Decision No. 67180 (August 10, 2004);  
27 Cross Creek obtained its CC&N in Decision No. 65978 (June 17, 2003); and Verde Santa Fe obtained  
28 its CC&N in Decision No. 60779 (April 8, 1998).

1 The principals of Coronado and Pivotal Management are also principals in Santec  
 2 Corporation ("Santec"). Coronado's owners are John Clingman, Jason Williamson and Dwight  
 3 Zemp. Mr. Clingman and Mr. Zemp are owners of Santec. Santec is a Colorado corporation that  
 4 designs, constructs, operates and manages wastewater facilities. Since 1987, Santec has developed  
 5 over 200 wastewater facilities in the United States and the Caribbean. Santec's promotional materials  
 6 describe Pivotal Management as "the operations arm of Santec." Mistfers Clingman, Zemp and  
 7 Williamson are the members of Pivotal Management.

8 Coronado plans to take over and operate the existing BHP sewer facilities during the  
 9 construction of a wastewater treatment new plant. Coronado intends to obtain tax-free financing to  
 10 acquire and upgrade the facilities. Thus, in conjunction with its CC&N Application, the Company  
 11 requested authority to borrow funds from the Municipal Leasing Credit Corporation ("MLCC"), with  
 12 an expected annual interest rate between 6 and 7 percent. MLCC will arrange financing in  
 13 connection with the Pinal County Industrial Development Authority. Coronado will contribute  
 14 \$878,863 in equity and borrow \$2,650,800. The new wastewater treatment facility is expected to cost  
 15 \$3,066,000 for backbone plant and \$66,000 for on-site facilities. Other costs include \$150,000 for  
 16 organizational costs and \$75,000 for land. Mr. Williamson states, that although Coronado is an  
 17 affiliate of Santec, the project to construct the new treatment plant will be put to competitive bid.

18 Staff reports that the Utilities Division Consumer Services Section has received no complaints  
 19 from customers of the Arizona utilities owned and/or operated by Pivotal Management over the last  
 20 three years. The Utilities Division Compliance Section reports no outstanding issues with those  
 21 utilities. The respective Annual Reports for the utilities show all property taxes to be paid.

## 22 The Issues

### 23 Public Interest

24 The residents of San Manuel are very concerned about the rate impact of Coronado acquiring  
 25 the existing plant and constructing a new wastewater treatment plant. The rates users will pay will  
 26 increase substantially from the \$48 they currently pay annually.<sup>2</sup> Many of the comments received

27 \_\_\_\_\_  
 28 <sup>2</sup> The parties have proposed rates that would charge residential customers \$30.23 a month until the new plant is put in service and \$46.50 thereafter.



1 from the public urge the Commission to require BHP to continue providing sewer service at a rate of  
2 between \$12 and \$18 per month. The residents argue that BHP is a public service corporation and  
3 should not be allowed to walk away from its obligations to provide sewer service at a reasonable rate.

4 BHP has been providing sewer service incidental to its operation of the mine and has never  
5 been regulated as a public service corporation by this Commission. Staff and Coronado disagree as  
6 to whether BHP is, or would be, a public service corporation. BHP is not a party to this proceeding,  
7 and did not provide its own legal analysis. Because BHP is not a party, we do not make a  
8 determination in this proceeding whether or not it is a public service corporation. It is, however,  
9 arguable that even if BHP was not a public service corporation while it operated the sewer plant  
10 incidental to its mining operations, if BHP does not sell its wastewater collection and treatment  
11 facilities and must continue providing the service, it could be considered a public service corporation  
12 and would have to provide service under terms and conditions prescribed by the Commission.

13 Mr. Brunskill, BHP's Manager of Closure Operations, testified that if BHP is not able to sell  
14 its sewer system to Coronado or another buyer that it would continue to operate the facility. Sept. 19,  
15 2005 trans. at 58. The evidence is that even if BHP continues to operate the system, it will have to  
16 make significant and substantial upgrades similar to the ones that Coronado proposes to make. Id. at  
17 54. The current treatment facility is fifty years old and past its useful life. It was permitted under  
18 BHP's mining permit and can no longer operate under that permit when the mine is closed. Id. At 53.  
19 The existing facility would not meet ADEQ current permitting requirements. Thus, whichever entity  
20 ultimately provides sewer service to the community of San Manuel, whether it be Coronado, BHP, or  
21 another entity, that entity will need to construct a new treatment facility that meets ADEQ  
22 regulations. A new wastewater treatment facility will result in higher rates. The San Manuel  
23 residents do not complain about Coronado providing service. The experience of Coronado's  
24 management in owning and operating wastewater treatment facilities in Arizona affords them the  
25 knowledge and ability to operate such system as efficiently, or more efficiently as any other party.

26 BHP, whether it is a public service corporation or not due to its ownership of the existing  
27 sewer system, has the right to find a way to exit the business of providing wastewater service. In its  
28 Amended Staff Report, Staff noted that the Commission has had negative experiences with utilities

1 that no longer wish to be in the industry. During public comment various individuals described  
2 attempts to contact BHP about the community forming a sewer district and acquiring the system from  
3 BHP. Mr. Brunskill also testified about such efforts from BHP's perspective. Sept. 19, 2005 trans. at  
4 55-57. For whatever reason, the residents have not taken steps to form a sewer district, but the lack  
5 of formation of a district prior to the purchase does not preclude the formation of such district in the  
6 future and either acquiring the system from either BHP or Coronado through a negotiated purchase or  
7 condemnation proceeding.

8 The evidence supports a finding that Coronado has the technical, managerial and financial  
9 ability to operate a wastewater system in the San Manuel area. It is currently operating the existing  
10 system under an agreement with BHP and owns and operates five other systems in Arizona without  
11 complaints or operational difficulties. Thus, we find that Coronado is a fit and proper entity to own  
12 and operate a wastewater collection and treatment facility in San Manuel. We believe, however, that  
13 certain conditions are required for a finding that this transaction to be considered in the public  
14 interest.

#### 15 Capital Structure

16 Initially, Coronado proposed that the Commission approve a capital structure consisting of 13  
17 percent equity and 87 percent debt. The Company wanted to take advantage of low cost tax free  
18 financing. It proposed to contribute \$292,365 of equity and to borrow \$3,300,000 from the  
19 Municipal Leasing Credit Corporation. Coronado argued that the availability of low cost debt would  
20 lessen the impact on ratepayers.

21 Staff initially recommended a capital structure that consisted of 40 percent equity and 60  
22 percent debt. Staff believed that the Company's proposed capital structure was more highly  
23 leveraged than is appropriate for an established utility, and that a new utility should have more equity  
24 in its capital structure than an established utility.

25 Prior to the commencement of the re-opened hearing, Staff and Coronado were able to reach a  
26 compromise concerning the capital structure. They agreed to a capital structure consisting of 27  
27 percent equity and 73 percent debt. Under the revised joint proposal, Coronado would contribute  
28 equity totaling \$878,863 and borrow \$2,650,800 from MLCC. Staff further recommended that to

1 build equity, Coronado retain 75 percent of its net operating income until equity represents 40 percent  
2 of total capital.

3 Although Coronado agreed to invest more equity in the Company, it did not agree that any  
4 restriction on equity distribution was needed or appropriate. Coronado argued that restricting 75  
5 percent of its earnings would negatively impact its ability to attract capital.

6 We appreciate that Coronado is mindful of the impact on ratepayers that will result from its  
7 acquisition of the existing plant and its construction of a new wastewater treatment plant, however,  
8 the operation of a wastewater treatment facility can involve a number of risks to the health and safety  
9 on the environment and local community. Because the construction of a new wastewater treatment  
10 facility will have a substantial impact on ratepayers, extraordinary measures to mitigate that impact as  
11 much as possible are warranted in this case. Thus, we agree with the parties' joint proposal that  
12 Coronado be authorized to borrow low cost funds in the amount of \$2,650,800, which would result in  
13 a capital structure of 27 percent equity and 73 percent debt at the end of the first year. It is highly  
14 unusual for the Commission to approve this much debt for an entity seeking a new CC&N, however,  
15 the entire circumstances of this case are unusual. In this case, the risk associated with a new entity  
16 taking on such a proportionately large amount of debt are somewhat mitigated by the fact that  
17 Coronado is also acquiring an existing system that already has 1,600 customers who will provide  
18 immediate cash flow for debt service.

19 We believe that Coronado should have the goal of increasing the amount of equity in its  
20 capital structure. As the Company itself recognized, wastewater operations can require substantial  
21 capital needs and that compliance requirements can be onerous.<sup>3</sup> A more balanced capital structure  
22 would allow the Company to make capital improvements and weather unforeseen events, as well as  
23 improve access to capital. Projections do not show the Company enjoying positive operating income  
24 until its third year of operations, and thus, all things remaining equal, equity would drop even lower  
25 until the Company reaches a point of positive earnings. Coronado's principals have shown an  
26 interest in investing in Arizona utilities and to date have provided safe and adequate service to  
27

28 <sup>3</sup> September 12, 2005 transcript at 10.

Arizona consumers in the other utilities they own and operate. The Company's protestations do not persuade us that the limitation on the distribution of earnings as recommended by Staff will have a significantly adverse affect on Coronado's owners' ability to attract capital. Although we are approving a lower equity ratio than is customary for a new company (27 percent), we recognize that special circumstances surrounding this case warrant our flexibility to lessen the impact on rate payers. However, we believe that a stronger capital structure in the long run is in the public interest. Thus, we adopt Staff's recommendation to require the Company to retain 75 percent of its net operating income until equity represents 40 percent of total capital.

#### Rates

Coronado and Staff agreed to phased-in rates. The rates as proposed by the parties are as follows:

	Proposed Rates
<b>PHASE 1</b>	
<b><u>MONTHLY CUSTOMER CHARGES:</u></b>	
Residential	\$30.23
Commercial	7.50
Mobile Home Park – Winter Only [A]	7.50
School	7.50

#### VOLUMETRIC RATES – Based on Metered Water Usage

Commercial – per 100 gallons of water usage	\$0.6400
Mobile Home Park – per 100 gallons of water usage (winter only) [A]	0.3700
School – per 100 gallons of water usage	0.2000

#### VOLUMETRIC RATES – Based on Number of Units

Mobile Home Park – monthly rate per occupied space – (summer only) [A]	\$20.71
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#### EFFLUENT SALES

Per 1,000 Gallons for general irrigation	\$ 0.15
Per Acre Foot (or 325,851 gallons) of general irrigation	48.88

## PHASE 2

MONTHLY CUSTOMER CHARGES:

Residential	\$46.50
Commercial	7.50
Mobile Home Park – Winter Only	7.50
School	7.50

VOLUMETRIC RATES – Based on Metered Water Usage

Commercial – per 100 gallons of water usage	\$0.9800
Mobile Home Park – per 100 gallons of water usage (winter only)	0.5700
School – per 100 gallons of water usage	0.3122

VOLUMETRIC RATES – Based on Number of Units

Mobile Home Park – monthly rate per occupied space – (summer only) [A]	\$31.86
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EFFLUENT SALES

Per 1,000 Gallons for general irrigation	\$0.15
Per Acre Foot (or 325,851 gallons) of general irrigation	48.88

SERVICE INSTALLATION CHARGES

Cost[B]

SERVICE CHARGE:

Establishment of Service	\$25.00
Re-establishment of Service	**
Reconnection (Delinquent)	35.00
Minimum Deposit	***
Deposit Interest	*
NSF Check	25.00
Deferred Payment	1.5%
Late Payment Penalty	1.5%

All revenue related taxes will be charged customers

Main Extension and additional facilities agreements

Cost [B]

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* Two times monthly bill

- 1 [A] Summer (April, May, June, July, August, September)  
 2 Winter (January, February, March, October, November, December)  
 3 [B] Cost to include parts, labor, overhead, and all applicable taxes, including income tax.

4 Note No. 1: Usage rates for mobile home park customers during summer months will be  
 5 based on previous winter use averages. Winter rates will be based on monthly  
 6 actual water usage.

7 Note No. 2: If a new customer is added during any of the summer months, its usage rate  
 8 calculation will be based on the "park average" – defined as the average  
 9 monthly usage during the winter months at that specific trailer park.

10 Note No. 3: For any customer being billed volumetrically, water meters that can be shown  
 11 to be "irrigation only" will be excluded from the tariff calculations.

12 Staff and Coronado propose phased-in rates in an attempt to reduce the rate shock on end  
 13 users. Staff states that the Phase 1 rates reflect the lower operating costs of the existing system  
 14 compared to the projected costs for the new system and plant. Integral to the joint recommendation  
 15 concerning Phase 1 rates is Coronado's agreement not to record an allowance for funds used during  
 16 construction until Phase 2 rates become effective.

17 The parties propose that Phase 2 rates go into effect after the new wastewater treatment plant  
 18 and collection system are in service, after the Company files an Approval of Construction from  
 19 ADEQ and after the customers have received notice of the increase at least 30 days before the rates  
 20 are implemented.

21 Initially, Staff had recommended a flat rate of \$49.53 per month for residential sewer  
 22 customers. Staff was not recommending phased-in rates, nor was it recommending rates based on  
 23 water usage because at the time of the first hearing, Coronado did not have access to the customer's  
 24 water usage.<sup>4</sup> Subsequently, Coronado was able to reach an agreement with Arizona Water Company  
 25 to receive water usage data which it could use to bill customers for sewer service. Thus, Staff revised  
 26 its recommendation to implement volumetric rates for commercial customers, mobile home parks and  
 27 schools. The mobile home volumetric rates are seasonal. In the summer, each mobile home park is  
 28 billed \$20.71 per active unit. In the winter months, mobile home parks are charged \$7.50 per month  
 for each occupied unit plus a volumetric charge of \$0.37 per 100 gallons of metered water. The

<sup>4</sup> Arizona Water Company provides water utility service to the area.

1 seasonal rate structure is intended to benefit mobile home park residents as it reflects that in the  
2 summer the increased water use for evaporative coolers and irrigation do enter the sewer system.

3       The assets that Coronado would purchase from BHP are fully depreciated. Designing rates  
4 based on a traditional rate base analysis, would not produce fair and reasonable rates. Thus, Staff  
5 utilized a cash flow analysis rather than a rate of return on rate base to derive its recommended  
6 revenue requirement. Staff analyzed the Company's projected Operating Expenses for Year 1, and  
7 determined that \$396,135 was a reasonable figure for Total Operating Expenses. Ex S-6. Staff then  
8 determined a DSC of 1.25 was appropriate and calculated a revenue requirement of \$599,323 for the  
9 first year. Staff's recommended revenue yields a Times Interest Earned Ratio ("TIER") of 1.73.  
10 Staff's late filed Exhibit dated September 23, 2005. With Total Operating revenue of \$599,323 and  
11 Operating Expenses of \$396,188, in Year 1, Coronado would generate Operating Income of \$203,135  
12 and Net Income of \$64,531.

13       By the end of year three, Coronado and Staff project a rate base of \$3,096,163. Staff's  
14 proposed Phase 2 rates are designed to generate total revenue of \$922,036, which after adjusted  
15 Operating Expenses of \$704,226, yields Operating Income of \$217,810, a rate of return of 7.03  
16 percent on Original Cost Rate Base, and a DSC of 2.07 and TIER of 2.06. Ex S-1 & Sept. 23, 2005,  
17 late filed exhibit.

18       The Phase 2 rates as proposed by the parties are reasonable and should be adopted upon the  
19 terms proposed. They represent a substantial increase from the current charges residents pay, but San  
20 Manuel residents have been paying below cost and below market rates for many years. A modern  
21 wastewater treatment facility that meets all federal and state regulations is an important asset for any  
22 community.

23       Normally, when the Commission approves a new CC&N, it sets initial rates based upon  
24 projected operating expenses and the projected rate base at a point in time when the facilities are  
25 constructed and operational. In this case, Coronado is acquiring an existing system that is essentially  
26 fully depreciated and will be serving existing customers using that existing system until the new plant  
27 is constructed. It is not fair or reasonable to set rates based on a projected new facility when that new  
28 facility is not yet used and useful. Thus, we approve Phase 1 rates to be effective upon Coronado's

1 acquisition of the BHP wastewater treatment system. We find that the Phase 1 rates, as proposed by  
2 the parties, are generally fair and reasonable to all parties as they allow Coronado to cover its  
3 operating costs of the existing facility and provide sufficient funds for debt service. We find,  
4 however, that the residential rates should be reduced somewhat to \$27.00 a month (from the proposed  
5 \$30.23 per month). These rates still allow the Company to cover its operating costs and cover its  
6 debt service. Under these rates, ratepayers are contributing toward the debt service costs associated  
7 with the new plant that is not yet used to provide service, and it is only fair that shareholders use  
8 some of their net earnings toward debt service until the new plant is in service.

9 Safety

10 After the conclusion of the June 29, 2005 hearing, Staff learned that on June 20, 2005, Santec  
11 pled guilty to causing the death of an employee during a fatal accident that occurred October 24,  
12 2001, in a wastewater plant belonging to Far West Water and Sewer Company ("Far West"). Far  
13 West hired Santec in February 2001 to conduct repair and upgrade work at its wastewater facilities.  
14 On October 25, 2001, while entering a sewer collection tank to deflate a stopper in a gravity line, a  
15 Far West employee collapsed and died from asphyxiation. A Santec employee who entered the tank  
16 to rescue the Far West employee also died. On December 23, 2002, a grand Jury Indictment was  
17 filed in the Superior Court charging Far West and Santec with knowingly violating "a standard or  
18 regulation and that violation caused death to an employee."

19 The safety violations were related to the "Permit Required Confined Spaces" rules of OSHA,  
20 which require that employers provide employees with the understanding, knowledge and skills  
21 necessary for the safe performance of the duties assigned. Written procedures and training designed  
22 to prevent the type of accident that occurred were either missing or not followed. On June 30, 2005,  
23 Santec and the State of Arizona filed a plea agreement in the Superior Court, in which Santec agreed  
24 to plead guilty to a Class 6 felony, Violating Safety Standard and Causing Death of an Employee.  
25 According to the agreement, Santec will pay restitution to the wife of one victim and restitution to  
26 other victims as ordered by the Court. Mr. Clingman and Mr. Zemp also agreed to be available for  
27 interviews with the State and would be provided immunity from criminal prosecution arising from  
28 the events.



1 Santec informed Staff that following the October 2001 accident, Santec reviewed all safety  
2 and confined space policies, and purchased additional equipment and provided additional training as  
3 needed. Santec stated that it has made its employees aware of safety procedures and that confined  
4 space entries require written confirmation and documentation even if they are not permit required.  
5 Pivotal Management reviewed the safety procedures and manuals at every utility it manages to ensure  
6 buildings have all proper and necessary safety equipment and signage, and that operators have the  
7 proper training and resources necessary to fulfill their duties in the safest possible manner. Coronado  
8 supplied Staff with a copy of its written permit-required confined space entry program, and avowed  
9 that the procedure is currently in the safety manual at the San Manuel wastewater treatment plant and  
10 will be adopted by Coronado at closing of the sale.

11 Staff believes that due to the tragic consequences of Santec's safety violations at Far West,  
12 the Commission should take measures to ensure that such events do not occur at Coronado. Thus,  
13 Staff recommends that all agents, employees or operators, including employees and agents of  
14 contractors and/or subcontractors operating the Coronado facilities must comply with Arizona  
15 Division of Occupational Safety and Health ("ADOSH") requirements including any and all training  
16 required by ADOSH to operate wastewater facilities. In addition, Staff recommends that for three  
17 years, Coronado must file in Docket Control certification from ADOSH that it has availed itself of  
18 ADOSH's consultation services and its operators, agents, employees, including employees and agents  
19 of contractors and subcontractors operating the Coronado facilities, have taken appropriate training.

20 Coronado does not object to Staff's recommendations concerning safety.

21 Staff's recommendations addressing safety are reasonable and we will adopt them.

22 Other recommendations

23 In addition to the foregoing, Staff makes the following recommendations:

- 24 1. That the Commission make a fair value rate base finding of \$3,096,163;
- 25 2. That Coronado use the depreciation rates as set forth in the Staff Report filed on  
26 May 7, 2005;
- 27
- 28

3. That Coronado be ordered to file a rate application in its fourth year of operations<sup>5</sup>, using the third year as the test year;
4. That the Commission require Coronado to maintain its books and records in accordance with the NARUC Uniform System of Accounts for Sewer Utilities;
5. That the Commission require Coronado to file with Docket Control a tariff consistent with the rates and charges authorized by the Commission within 30 days of the effective date of a decision in this matter;
6. That Coronado be authorized to obtain \$2,650,800 in long-term debt financing on the terms and conditions consistent with or better than those used in Staff's pro forma analysis;
7. That Coronado be required to file in Docket Control by April 15<sup>th</sup> of each year a Statement of Liabilities and Stockholders Equity until and including such time as the equity represents 40 percent of total capital;
8. That the Commission approve the granting of liens in favor of the lender as required to secure the borrowings authorized;
9. That no loan funds be applied to operating expenses or income;
10. That Coronado be authorized to engage in any transaction and to execute any documents necessary to effectuate the financing authorizations granted;
11. That Coronado be ordered to file copies of all executed financing documents with Docket Control within 90 days of loan closing;
12. That the Commission require Coronado to file with Docket Control a copy of the Pinal County franchise within 365 days of the effective date of the decision in this matter;
13. That the Commission require Coronado to file with Docket Control a copy of the ADEQ Unified Water Quality Permit of the San Manuel Wastewater Treatment

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<sup>5</sup> As measured from the date it acquires the assets.

Facility authorizing a treatment and disposal capacity of 350,000 gallons per day within 365 days of the effective date of the decision and order in this matter; and

14. That the Certificate granted to Coronado be considered null and void without further order from the Commission should Coronado fail to meet Conditions 5, 12 and 13 within the time specified.

Coronado did not object to any of these conditions.

These conditions are reasonable and should be adopted.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

**FINDINGS OF FACT**

1. On February 10, 2005, Coronado filed with the Commission an Application for an a new Certificate to provide wastewater utility service in the unincorporated community of San Manuel, in Pinal County.

2. On February 10, 2005, Coronado filed an Application for authority to issue a combination of short and long-term debt instruments totaling not more than \$3,300,000, the proceeds of which are intended to finance the acquisition of the wastewater infrastructure.

3. On February 11, 2005, Coronado filed a Motion to Consolidate the two applications.

4. On February, 23, 2005, Staff filed a Response to the Motion, indicating Staff has no objection to consolidating the two applications. The matters were consolidated in our Procedural Order dated March 16, 2005.

5. On March 15, 2005, Staff docketed a letter indicating that the CC&N Application meets the sufficiency requirements of the Arizona Administrative Code.

6. By Procedural Orders dated March 16, 2005, March 23, 2005 and May 3, 2005, procedural guidelines were established and the hearing in this matter was set for June 29, 2005.

7. On May 12, 2005, Coronado mailed a copy of the required notice of the hearing to all customers in San Manuel. The Company caused the notice to be published in the *San Manuel Miner* on April 27, 2005.

1        8.     On May 27, 2005, Staff filed a Staff Report, recommending approval of the  
2 application subject to conditions.

3        9.     On June 13, 2005, Coronado filed a Response to the Staff Report, primarily objecting  
4 to Staff's recommended capital structure.

5        10.    On June 21, 2005, Staff filed an Addendum to the Staff Report, revising its  
6 recommended rates and charges.

7        11.    The hearing convened as scheduled on June 29, 2005, before a duly authorized  
8 Administrative Law Judge. At the end of the hearing, Staff agreed to file a revised rate schedule.

9        12.    On July 6, 2005, Staff filed a Request to Re-open the hearing in order to allow Staff to  
10 consider the sentencing of Santec in a criminal proceeding and to present its revisions to its proposed  
11 rate design.

12       13.    By Procedural Order dated July 7, 2005, the hearing was re-opened and set for July  
13 22, 2005. The July 7, 2005 Procedural Order required Staff to prepare a legal analysis of whether  
14 BHP Copper, the entity that is currently providing wastewater service in the affected area, is, or could  
15 be, a public service corporation, and suspended the time clock rule.

16       14.    On July 11, 2005, Staff filed a Request to Reset the July 22, 2005, hearing date as the  
17 Santec sentencing had been continued until August 11, 2005. Staff believed that the results of that  
18 hearing could affect its recommendations in this matter, and requested that the re-opened hearing be  
19 re-set to no earlier than two weeks after the sentencing hearing. Staff also requested that Coronado  
20 be required to re-notice the re-opened hearing and that the Company provide a witness from BHP  
21 who can provide information about customer complaints and background information that would be  
22 helpful in determining whether BHP is a public service corporation.

23       15.    By Procedural Order dated July 12, 2005, a Procedural Conference convened on July  
24 22, 2005. Staff and Coronado agreed that publication would be an effective and cost-minimizing  
25 means of notifying the San Manuel customers of the re-opened hearing.

26       16.    By Procedural Order dated August 2, 2005, the Administrative Law Judge ordered  
27 Coronado to have notice of the re-opened proceeding published in the local newspaper and to post  
28 notice of the re-opened hearing in at least three public locations within its proposed service area. In

1 addition, the Administrative Law Judge provided a copy of the Procedural Order to the local  
2 newspaper. The August 2, 2005, Procedural Order required Coronado as well as Staff, to provide a  
3 legal analysis of the status of BHP as a public serve corporation and agreed that arranging for the  
4 witness from BHP should be Staff's responsibility.

5 17. Because of the great interest in the local community in this matter, as a courtesy, the  
6 Administrative Law Judge issued a Procedural Order dated August 18, 2005, that sent copies of past  
7 pleading to the San Manuel Library and ordered the parties to provide copies of future pleadings to  
8 the library.

9 18. On August 31, 2005, Staff and Coronado filed their analyses concerning BHP's status  
10 as a public service corporation. In Staff's opinion BHP satisfies a great number of the criteria used to  
11 determine whether a business entity is a public service corporation. Coronado's analysis included an  
12 affidavit of Gerald Brunskill, BHP's Manager of Closure Operations. In Coronado's opinion, BHP is  
13 not a public service corporation because it has never engaged in the sewage system business "for  
14 profit."

15 19. Also on August 31, 2005, Staff filed an Amended Staff Report which continues to  
16 recommend approval of the CC&N. Staff's revised recommendations include a higher debt to equity  
17 ratio that Staff originally advocated, but also included a requirement that Coronado retain 75 percent  
18 of its earnings until the capital structure contains at least 40 percent equity. Staff recommended  
19 phased-in rates and advocated the imposition of conditions that would require Coronado participate in  
20 safety training.

21 20. On September 13, 2005, Coronado filed Comments on the Amended Staff Report,  
22 objecting to the recommendation that the Company retain 75 percent of its earnings until equity  
23 reaches 40 percent. Coronado did not object to Staff's recommended conditions concerning training  
24 and safety.

25 21. On August 31, 2005, Coronado had notice of the re-opened hearing published in the  
26 San Manuel Miner. On August 29, 2005, Coronado also had notice of the hearing posted in three  
27 public locations within the proposed service area.

28 22. The re-opened hearing convened before a duly authorized Administrative Law Judge

1 as scheduled on September 19, 2005.

2 23. At the commencement of the re-opened hearing 15 residents of San Manuel gave  
3 public comment. In addition, the Commission received numerous written comments from residents  
4 opposed to the application. The residents of San Manuel are extremely concerned about the  
5 increased the cost to them resulting from the construction of a new wastewater treatment plant. They  
6 believe that BHP has the obligation to continue to provide wastewater service to them at a much  
7 lower rate than is being proposed in the current application.

8 24. BHP has provided sewer service to the residents of San Manuel incidental to its  
9 mining operations for over 50 years.

10 25. The residents within the proposed certificated area currently receive sewer service  
11 from BHP for a charge of \$48 annually. The current charge is below BHP's costs of providing the  
12 service.

13 26. BHP suspended underground mining at San Manuel in June 1999, and announced in  
14 January 2002, that it would be closing the mine. On October 23, 2003, BHP announced that it would  
15 also permanently close its processing plant. BHP plans to complete closure of the mine and plant by  
16 the end of 2007.

17 27. On November 1, 2004, BHP and Coronado entered into a purchase agreement for the  
18 wastewater collection and treatment facilities. At the same time, Pivotal Management, an affiliate of  
19 Coronado, entered into an Operation and Maintenance Agreement with BHP to operate and manage  
20 the current wastewater treatment plant pending construction of a new treatment plant that will  
21 eventually serve existing and future customers. The Purchase Agreement requires Coronado to seek  
22 a CC&N from the Commission, and to obtain an Aquifer Protection Permit from ADEQ for the new  
23 wastewater treatment plant and associated upgrades.

24 28. The existing BHP wastewater treatment plant is currently permitted under BHP's  
25 mining permit. The existing plant would not meet current ADEQ requirements, and cannot continue  
26 to operate under the BHP mining permit once the mine is closed.

27 29. The wastewater treatment plant in San Manuel must be upgraded to meet current  
28 ADEQ regulations no matter what entity owns and operates the facilities.

1       30. Coronado's management is experienced in the construction and operation of  
2 wastewater treatment plants in Arizona. Pivotal Management, an affiliate of Coronado, operates five  
3 wastewater utilities in Arizona.

4       31. Coronado projects, and Staff concurs, that its investment in the new wastewater  
5 treatment facilities will be \$3,096,163 at the end of its third year of operations. For the purpose of  
6 establishing initial rates, Coronado's Fair Value Rate Base is \$3,096,163.

7       32. Coronado plans to finance the construction of the new wastewater treatment facility by  
8 borrowing \$2,650,800 from MLCC, for a term of 20 years, at an interest rate of between 6 and 7  
9 percent annually.

10       33. Coronado's principals will contribute equity of \$878,863.

11       34. Projections indicate that at the end of the first year, Coronado would have a capital  
12 structure comprised of 72.3 percent debt and 27.7 percent equity. Because of the unique  
13 circumstances surrounding this application, primary among which is the rate impact on a pre-existing  
14 customer base, an initial capital structure as proposed by the parties is reasonable.

15       35. Staff recommends that to build equity, Coronado retain 75 percent of its net operating  
16 income until equity represents 40 percent of total capital. Staff recommends that Coronado be  
17 required to file in Docket Control by April 15<sup>th</sup> of each year a Statement of Liabilities and  
18 Stockholders Equity until and including such time as the equity represents 40 percent of total capital.

19       36. Coronado objects to a restriction on dividends on the grounds it would impair the  
20 Company's ability to attract capital.

21       37. Staff's recommendation that Coronado retain 75 of its net operating income until it  
22 obtains equity equivalent to 40 percent of its total capitalization is reasonable and should be adopted.

23       38. The phased in rates as proposed by the parties and set forth in the discussion section of  
24 this Order, are generally fair and reasonable, except that the Phase 1 rate for residential customers  
25 should be reduced to \$27.00 per month.

26       39. As a result of the criminal proceeding involving Santec, an affiliate of Coronado, in  
27 which Santec pled guilty, Staff recommends that for three years, Coronado must file in Docket  
28 Control certification from ADOSH that it has availed itself of ADOSH's consultation services and its

1 operators, agents, employees, including employees and agents of contractors and subcontractors  
2 operating the Coronado facilities, have taken appropriate training.

3 40. Staff further recommends:

- 4 (a) That Coronado use the depreciation rates as set forth in the Staff Report filed on  
5 May 7, 2005;
- 6 (b) That Coronado be ordered to file a rate application in its fourth year of operations<sup>6</sup>,  
7 using the third year as the test year;
- 8 (c) That the Commission require Coronado to maintain its books and records in  
9 accordance with the NARUC Uniform System of Accounts for Sewer Utilities;
- 10 (d) That the Commission require Coronado to file with Docket Control a tariff  
11 consistent with the rates and charges authorized by the Commission within 30 days  
12 of the effective date of a decision in this matter;
- 13 (e) That Coronado be authorized to obtain \$2,650,800 in long-term debt financing on  
14 the terms and conditions consistent with or better than those used in Staff's pro  
15 forma analysis;
- 16 (f) That the Commission approve the granting of liens in favor of the lender as  
17 required to secure the borrowings authorized;
- 18 (g) That no loan funds be applied to operating expenses or income;
- 19 (h) That Coronado be authorized to engage in any transaction and to execute any  
20 documents necessary to effectuate the financing authorizations granted;
- 21 (i) That Coronado be ordered to file copies of all executed financing documents with  
22 Docket Control within 90 days of loan closing;
- 23 (j) That the Commission require Coronado to file with Docket Control a copy of the  
24 Pinal County franchise within 365 days of the effective date of the decision in this  
25 matter;
- 26 (k) That the Commission require Coronado to file with Docket Control a copy of the  
27 ADEQ Unified Water Quality Permit of the San Manuel Wastewater Treatment  
28 Facility authorizing a treatment and disposal capacity of 350,000 gallons per day  
within 365 days of the effective date of the decision and order in this matter; and
- (l) That the Certificate granted to Coronado be considered null and void without  
further order from the Commission should Coronado fail to meet Conditions d, j  
and k within the time specified.

<sup>6</sup> As measured from the date it acquires the assets.



**CONCLUSIONS OF LAW**

1  
2  
3 1. Upon approval of the application, Coronado will be a public service corporation  
4 within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

5 2. The Commission has jurisdiction over Coronado and the subject matter of the  
6 application.

7 3. Notice of the application was provided in accordance with law.

8 4. There is a public need and necessity for wastewater collection and treatment service in  
9 the proposed service area set forth in Exhibit A.

10 5. Coronado is a fit and proper entity to receive a CC&N to provide wastewater  
11 collection and treatment service in the proposed service area.

12 6. The financing approved herein is for lawful purposes within Coronado's corporate  
13 powers, is compatible with the public interest, with sound financial practices, and with the proper  
14 performance by Coronado of service as a public service corporation, and will not impair Coronado's  
15 ability to perform the service.

16 7. The financing approved herein is for the purposes stated in the application, is  
17 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably  
18 chargeable to operating expenses or to income.

19 8. The rates and charges approved herein are just and reasonable.

20 9. Staff's recommendations contained in Findings of Fact Nos. 35, 39 and 40 are  
21 reasonable and should be adopted.

**ORDER**

22  
23 IT IS THEREFORE ORDERED that the application of Coronado Utilities, Inc., for a  
24 Certificate of Convenience and Necessity to provide wastewater service in Pinal County as described  
25 in Exhibit A hereto, is approved, subject to the conditions approved herein.

26 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall charge the following rates and  
27 charges:  
28

## Proposed Rates

**PHASE 1****MONTHLY CUSTOMER CHARGES:**

Residential	\$27.00
Commercial	7.50
Mobile Home Park – Winter Only [A]	7.50
School	7.50

**VOLUMETRIC RATES – Based on Metered Water Usage**

Commercial – per 100 gallons of water usage	\$0.6400
Mobile Home Park – per 100 gallons of water usage (winter only) [A]	0.3700
School – per 100 gallons of water usage	0.2000

**VOLUMETRIC RATES – Based on Number of Units**

Mobile Home Park – monthly rate per occupied space – (summer only) [A]	\$20.71
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**EFFLUENT SALES**

Per 1,000 Gallons for general irrigation	\$0.15
Per Acre Foot (or 325,851 gallons) of general irrigation	48.88

**PHASE 2****MONTHLY CUSTOMER CHARGES:**

Residential	\$46.50
Commercial	7.50
Mobile Home Park – Winter Only	7.50
School	7.50

**VOLUMETRIC RATES – Based on Metered Water Usage**

Commercial – per 100 gallons of water usage	\$0.9800
Mobile Home Park – per 100 gallons of water usage (winter only)	0.5700
School – per 100 gallons of water usage	0.3122

**VOLUMETRIC RATES – Based on Number of Units**

Mobile Home Park – monthly rate per occupied space – (summer only) [A]	\$31.86
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EFFLUENT SALES

Per 1,000 Gallons for general irrigation	\$0.15
Per Acre Foot (or 325,851 gallons) of general irrigation	48.88

SERVICE INSTALLATION CHARGES

Cost[B]

SERVICE CHARGE:

Establishment of Service	\$25.00
Re-establishment of Service	**
Reconnection (Delinquent)	35.00
Minimum Deposit	***
Deposit Interest	*
NSF Check	25.00
Deferred Payment	1.5%
Late Payment Penalty	1.5%

All revenue related taxes will be charged customers

Main Extension and additional facilities agreements

Cost [B]

\* Per Commission rule A.A.C. R-14-2-403(B).

\*\* Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

\*\*\* Two times monthly bill

[A] Summer (April, May, June, July, August, September)

Winter (January, February, March, October, November, December)

[B] Cost to include parts, labor, overhead, and all applicable taxes, including income tax.

Note No. 1: Usage rates for mobile home park customers during summer months will be based on previous winter use averages. Winter rates will be based on monthly actual water usage.

Note No. 2: If a new customer is added during any of the summer months, its usage rate calculation will be based on the "park average" – defined as the average monthly usage during the winter months at that specific trailer park.

Note No. 3: For any customer being billed volumetrically, water meters that can be shown to be "irrigation only" will be excluded from the tariff calculations.

IT IS FURTHER ORDERED that Phase 1 of the rates approved herein shall be effective for all service provided by Coronado Utilities Inc. as of the first of the month following its acquisition of

1 the wastewater facilities from BHP Copper, and after it has sent notice of the rates and charges to its  
2 customers as provided herein.

3 IT IS FURTHER ORDERED that the Phase 2 rates approved herein shall be effective for all  
4 service provided by Coronado Utilities Inc. after 1) the new wastewater treatment plant and collection  
5 system are in service; 2) Coronado Utilities Inc. files an Approval of Construction from ADEQ; and  
6 3) the customers have received notice of the increase at least 30 days before the rates are  
7 implemented.

8 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall notify the Commission as  
9 soon as practicable after its acquisition of BHP Copper's facilities has closed.

10 IT IS FURTHER ORDERED that shall notify its customers by U. S. Mail of the rates and  
11 charges authorized herein in a form acceptable to Staff.

12 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall retain 75 of its net operating  
13 income until it obtains equity equivalent to 40 percent of its total capitalization.

14 IT IS FURTHER ORDERED that Coronado Utilities Inc, shall use the depreciation rates as  
15 set forth in the Staff Report filed on May 7, 2005.

16 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall file a rate application in its  
17 fourth year of operations, using the third year as the test year.

18 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall maintain its books and records  
19 in accordance with the NARUC Uniform System of Accounts for Sewer Utilities.

20 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall file with Docket Control, as a  
21 compliance item, a tariff consistent with the rates and charges authorized by the Commission within  
22 30 days of the effective date of this Decision.

23 IT IS FURTHER ORDERED that Coronado Utilities Inc. is authorized to obtain \$2,650,800  
24 of long-term debt financing from Municipal Leasing Credit Corporation for a term of 20 years with  
25 an annual interest rate not to exceed 7 percent annually.

26 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
27 Coronado Utilities Inc.'s use of the proceeds for the purposes stated in its application and approved  
28 herein.

1 IT IS FURTHER ORDERED that Coronado Utilities Inc. is authorized to execute any  
2 documents necessary to effectuate the authorizations granted.

3 IT IS FURTHER ORDERED that no loan proceeds authorized herein shall be applied to  
4 operating expenses or income.

5 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall file, as a compliance item,  
6 copies of all executed financing documents with Docket Control within 90 days of loan closing.

7 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall file with Docket Control, as a  
8 compliance item, a copy of the Pinal County franchise within 365 days of the effective date of this  
9 Decision.

10 IT IS FURTHER ORDERED that Coronado Utilities Inc. shall file with Docket Control, as a  
11 compliance item, a copy of the ADEQ Unified Water Quality Permit of the San Manuel Wastewater  
12 Treatment Facility authorizing a treatment and disposal capacity of 350,000 gallons per day within  
13 365 days of the effective date of this Decision.

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IT IS FURTHER ORDERED that for three years, commencing with its first annual report, Coronado Utilities Inc. shall file in Docket Control, as a compliance item, certification from ADOSH that it has availed itself of ADOSH's consultation services and its operators, agents, employees, including employees and agents of contractors and subcontractors operating the Coronado facilities, have taken appropriate training.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_ day of \_\_\_\_\_, 2005.

BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

JR:mj

SERVICE LIST FOR:

CORONADO UTILITIES, INC.

DOCKET NO.:

SW-04305A-05-0086

SW-04305A-05-0087

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## Legal Description of The San Manuel Sewer District

That part of Section 24 and 25, Township 9 South, Range 16 East, and Sections 19, 20, 28, 29, 30, 31, 32 and 33, Township 9 South, Range 17 East, and Sections 4, 5 and 6, Township 10 South, Range 17 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, described as follows;

Commencing at the southeast corner of the above mentioned Section 5, Township 10 South, Range 17 East, said point being the point of beginning of the land to be described, (The basis of bearing is the south line of the southeast quarter of Section 5, Township 10 South, Range 17 East being north 89 degrees 57 minutes 50 seconds West).

THENCE North 89 degrees 57 minutes 50 seconds West for a distance of 2650.23 feet along the south line of said Section 5 to the south quarter corner being a found GLO brass cap dated 1924.

THENCE North 89 degrees 56 minutes 30 seconds West for a distance of 2645.27 feet along the south line of said Section 5 to the southwest corner being a found GLO brass cap dated 1924.

THENCE South 89 degrees 40 minutes 58 seconds West for a distance of 2638.79 feet along the south line of said Section 6 to the south quarter corner being a found GLO brass cap dated 1924

THENCE South 89 degrees 37 minutes 16 seconds West for a distance of 2632.37 feet along the south line of said Section 6 to a found GLO stone.

THENCE North 00 degrees 05 minutes 24 seconds West for a distance of 5538.15 feet along the west line of said Section 6 to a found brass cap, being the intersection of Township 9 and 10 South, and Range 16 and 17 East.

THENCE North 00 degrees 54 minutes 22 seconds West for a distance of 5291.81 feet along the west line of said Section 31 to the northwest corner being a found 5/8 inch rebar.

THENCE North 00 degrees 56 minutes 15 seconds West for a distance of 2662.69 feet along the west line of said Section 30 to the west quarter corner being a found 3/4 inch open pipe.

THENCE North 00 degrees 59 minutes 01 seconds West for a distance of 2322.17 feet along the west line of said Section 30 to a found aluminum cap LS 4154 on the south line of the San Manuel Golf Course.

THENCE North 66 degrees 21 minutes 49 seconds West for a distance of 801.59 feet along the south line of the San Manuel Golf Course to a found aluminum cap LS 4154.

THENCE North 66 degrees 22 minutes 41 seconds West for a distance of 1887.00 feet along the south line of the San Manuel Golf Course to a found Aluminum cap LS 4154.

THENCE North 00 degrees 00 minutes 54 seconds East for a distance of 1201.47 feet along the west line of the San Manuel Golf Course to a found Aluminum cap LS 4154 on the south right-of-way line of highway 76.



THENCE South 67 degrees 01 minutes 57 seconds East for a distance of 1855.09 feet along the south right-of-way line of highway 76 to a ADOT monument  $\frac{3}{4}$  inch steel pin at station 119+00.

THENCE South 67 degrees 02 minutes 16 seconds East for a distance of 797.52 feet along the south right-of-way line of highway 76 to a found aluminum cap LS 4154 at station 111+03.30.

THENCE North 00 degrees 56 minutes 02 seconds West for a distance of 1658.80 feet along the west line of said Section 19 to the west quarter corner being a found  $\frac{3}{4}$  inch rebar.

THENCE North 00 degrees 56 minutes 39 seconds West for a distance of 556.81 feet along the west line of said Section 19 to a point on the south line of San Manuel Airport lease.

THENCE North 56 degrees 09 minutes 30 seconds West for a distance of 47.31 feet along the south line of San Manuel Airport lease to a set  $\frac{1}{2}$  inch rebar.

THENCE along a curve to the left having a radius of 11535.71 feet, and an arc length of 1216.19 feet subtended by a cord of North 52 degrees 00 minutes 23 seconds West for a distance of 1215.61 feet along the south line of the San Manuel airport lease to a set  $\frac{1}{2}$  inch rebar.

THENCE North 33 degrees 50 minutes 30 seconds East for a distance of 1156.98 feet to a point.

THENCE South 56 degrees 09 minutes 30 seconds East for a distance of 9318.47 feet to a point on the north fence line of the Commodity Warehouse.

THENCE North 90 degrees 00 minutes 00 seconds East for a distance of 4960.97 feet to a point.

THENCE South 33 degrees 57 minutes 38 seconds East for a distance of 3504.07 feet to a point on a fence corner.

THENCE South 15 degrees 52 minutes 36 seconds West for a distance of 8527.39 feet to a set  $\frac{1}{2}$  inch rebar on the west right-of-way line of Highway 76.

THENCE South 00 degrees 00 minutes 00 seconds East for a distance of 4680.74 feet to a point on the south line of said Section 4.

THENCE South 89 degrees 54 minutes 01 seconds West for a distance of 1173.24 feet along the south line of said Section 4, to the point of beginning of the land described.

Together with and subject to covenants, easements, and restrictions of record.

Said property contains 5104.38 acres more or less.